

Message Text

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ACTION ITC-01

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SUBJECT: USITC STUDY ON GOVERNMENT-OWNED FIRMS IN MARKET
ECONOMY COUNTRIES

REF: A-1249

1. BRITAIN OPERATES A MARKET ECONOMY IN WHICH NATIONAL-
IZED INDUSTRIES OCCUPY A LIMITED ALTHOUGH CENTRAL POSI-
TION. THESE INDUSTRIES ACCOUNT FOR APPROXIMATELY 11 PER-
CENT OF THE GROSS DOMESTIC PRODUCT AND ALMOST 20 PERCENT
OF TOTAL FIXED INVESTMENT IN THE UNITED KINGDOM. AS
SUPPLIERS OF GOODS AND SERVICES, THEY OCCUPY A DOMINANT
POSITION IN THE ENERGY, COMMUNICATIONS, STEEL AND TRANS-
PORT SECTORS. THEY PURCHASE ABOUT ONE-THIRD OF ALL PLANT
AND EQUIPMENT UTILIZED BY BRITISH INDUSTRY. AFTER THE
CENTRAL GOVERNMENT, THE FOUR LARGEST EMPLOYERS ARE
NATIONALIZED INDUSTRIES.

2. HISTORICALLY, MOST NATIONALIZED INDUSTRIES WERE
INITIALLY ESTABLISHED IN THE PERIOD BETWEEN 1946 AND
1949 BY A LABOUR GOVERNMENT. THEY WERE CREATED BY
STATUTE AS PUBLIC CORPORATIONS SEPARATE FROM GOVERNMENT
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BUT SUBJECT TO GOVERNMENT INFLUENCE THROUGH THE EXERCISE
OF "ARM'S LENGTH" POWER GIVEN TO THE APPROPRIATE GOVERN-
MENT MINISTER. THIS WAS DONE PARTICULARLY THROUGH
BOARD APPOINTMENTS AND PROVISION OF FINANCE. THIS BASIC
INSTITUTIONAL STRUCTURE HAS NOT CHANGED SIGNIFICANTLY
WITH THE ADDITION OF OTHER NATIONALIZED INDUSTRIES OVER
THE YEARS, BUT THE GOVERNMENT HAS BEEN MORE INTERVENTION-

IST SINCE THE LATE 1960'S AND EARLY 1970'S, PARTICULARLY WITH REGARD TO PRICING POLICIES. THIS HAS BEEN A REFLECTION NOT ONLY OF THE INCREASING USE OF PUBLIC CORPORATIONS TO IMPLEMENT MACRO-ECONOMIC POLICY, BUT ALSO TO MEET THE POLITICAL PRESSURES OF HIGHER SOCIAL EXPECTATIONS OR PARTICULAR SECTIONAL INTERESTS.

3. PUBLICLY OWNED, OR PARTIALLY PUBLICLY OWNED, ENTERPRISES ARE CLASSIFIED INTO TWO MAJOR CATEGORIES IN THE UK.

(A) PUBLIC TRADING BODIES. THIS GROUPING CONSISTS PREDOMINANTLY OF "NATIONALIZED INDUSTRIES" WHICH ARE DEFINED BY THE UK GOVERNMENT AS HAVING THE FOLLOWING GENERAL CHARACTERISTICS:

- ASSETS ARE IN PUBLIC OWNERSHIP AND VESTED IN A CORPORATION;
- BOARDS ARE APPOINTED BY A GOVERNMENT DEPARTMENT;
- BOARD MEMBERS AND EMPLOYEES ARE NOT CIVIL SERVANTS;
- PRIMARILY ENGAGED IN INDUSTRIAL OR OTHER TRADING ACTIVITIES; AND
- DIFFERENTIATED FROM OTHER KINDS OF PUBLIC CORPORATIONS BY THE DEGREE TO WHICH THEY ARE ENGAGED IN SALES OF GOODS AND SERVICES AND THE EXTENT TO WHICH REVENUE IS DERIVED DIRECTLY FROM THEIR CUSTOMERS.

THE FOLLOWING ARE THE NINE MAJOR NATIONALIZED INDUSTRIES LIMITED OFFICIAL USE

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IN THE UK:

- BRITISH AIRWAYS (INCORPORATING ITS PREDECESSORS. BOAC AND BEA)
- BRITISH GAS CORPORATION
- BRITISH RAILWAYS BOARD
- BRITISH STEEL CORPORATION
- ELECTRICITY INDUSTRY IN ENGLAND AND WALES
- NATIONAL BUS COMPANY
- NATIONAL COAL BOARD
- NATIONAL FREIGHT CORPORATION
- POST OFFICE (A GOVERNMENT DEPARTMENT PRIOR TO OCTOBER 1, 1969).

(B) LIMITED COMPANIES. MANUFACTURING COMPANIES IN WHICH THE UK GOVERNMENT HAS ASSUMED MAJORITY SHARE HOLDING AS SUBSIDIARIES OF THE NATIONAL ENTERPRISE BOARD (A STATE HOLDING COMPANY) ARE:

- BRITISH LEYLAND
- ROLLS-ROYCE (1971)
- DATA RECORDING INSTRUMENTS
- FERRANTI
- HERBERT
- SEVERAL SHIP BUILDING COMPANIES (SINCE AIRCRAFT

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AND SHIP BUILDING ACT TOOK EFFECT MAY 28, 1977).

4. OF ALL OF THE ABOVE ENTITIES, ONLY BRITISH AIRWAYS (BA) AND BRITISH STEEL CORPORATION (BSC) ENGAGE IN ANY SIGNIFICANT WAY IN INTERNATIONAL TRADE. OBVIOUSLY, IN THE ABSENCE OF AN EMPIRICAL, ANALYTICAL STUDY IT IS NOT POSSIBLE TO PRECISELY ASSESS THE EFFECT OF THESE TWO AND OTHER UK GOVERNMENT-CONTROLLED FIRMS ON INTERNATIONAL TRADE, INCLUDING THAT WITH THE U.S. HOWEVER, IT IS OUR INITIAL IMPRESSION THAT THE EXISTENCE OF GOVERNMENT OWNERSHIP OR EQUITY PARTICIPATION HAS PROBABLY RESULTED IN SOME EFFECT ON U.S. TRADE BUT THAT THE MAGNITUDE WOULD NOT SEEM TO BE VERY SIGNIFICANT.

5. THE MOST IDENTIFIABLE POLICIES WHICH COULD HAVE A DISTORTING EFFECT ARE AS FOLLOWS:
(A) THE COST OF BORROWING CAPITAL COULD BE LESS THAN NORMAL COMMERCIAL COSTS SINCE NATIONALIZED INDUSTRIES CAN BORROW "GOVERNMENT DIVIDEND CAPITAL" AT LOW TREASURY RATES. AND, IN SOME CASES, NATIONAL ENTERPRISE BOARD COMPANIES CAN OBTAIN INTEREST-FREE LOANS.
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(B) NATIONALIZED INDUSTRIES ARE UNDER VARYING DEGREES OF PRESSURE TO "BUY BRITISH." IN THE CASE OF BSC WE ARE NOT, HOWEVER, AWARE OF SIGNIFICANT EFFECTIVE DIVERSION OF PROCUREMENT TO BRITISH SUPPLIERS. IN THE PAST BA HAS HAD TO MAKE DECISIONS AGAINST ITS COMMERCIAL JUDGMENTS IN FAVOR OF BRITISH RATHER THAN AMERICAN AIRCRAFT, AND ITS CURRENT FLEET REFLECTS THIS HISTORY. HOWEVER, IN RELATIVELY RECENT YEARS CONCORDE IS THE ONLY SIGNIFICANT CASE OF PURCHASE UNDER COMPULSION. WITH THAT EXCEPTION, ALMOST ALL NEW EQUIPMENT HAS, IN THE RECENT PAST, BEEN AMERICAN. APPROXIMATELY 43 PERCENT OF ITS PRESENT 116-PLANE FLEET IS U.S. PRODUCED. BRITISH AIRWAYS' HELICOPTER FLEET CONSISTS EXCLUSIVELY OF U.S. EQUIPMENT.

6. THE EMBASSY IS POUCHING TO DEPARTMENT VARIOUS MATERIALS ON UK NATIONALIZED INDUSTRIES, AS REQUESTED REPAIR. THESE WILL INCLUDE:

- (A) "A STUDY OF UK NATIONALIZED INDUSTRIES" WITH AN EXTENSIVE APPENDIX OF STUDY PAPERS, DONE BY THE NATIONAL ECONOMIC DEVELOPMENT OFFICE IN 1976.
- (B) "NATIONALIZED INDUSTRIES IN BRITAIN," PUBLISHED BY THE UK CENTRAL OFFICE OF INFORMATION, WHICH INCLUDES AN EXTENSIVE BIBLIOGRAPHY ON UK NATIONALIZED INDUSTRIES.
- (C) VARIOUS ANNUAL REPORTS FOR MAJOR NATIONALIZED INDUSTRIES.

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